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Embtels 890, 898, 839, Basra's 25, Alusna Tehran Oct. 26.

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We would appreciate further clarification Iran Govt policy on flag requirement for foreign ships destined Iranian ports. According Alusna Tehran message dated Oct 26, Iranian authorities were dropping flag requirement at this time. This would conform with Shah's statement to Amb Wailes on Oct 22 (Tehran's 839). This position would seem to be contradicted by Tehran's 890, particularly Shahin's statement in last sentence para four that Ira retaining flag requirement.

As we see it, if flag and pilotage issues are in fact not rpt not being pushed this time, only immediate dispute involves continued use of Khosroabad over Iraqi objections. According our understanding of treaty provisions and customary procedure, Iranian flag vessels are not required fly Iraqi flag or use Iraqi pilot. This is apparently reason why Iranian authorities asked Pan American register LSMs as Iranian flag vessels. Would appreciate comment all addressee posts except Dhahran on this interpretation ~~of the situation~~ cases ships flying both flags.

Despite Sanandaji's optimism we remain concerned that incident might occur which would have wide repercussions. Basra's 25 (being rptd London

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Page 2 of telegram to Tehran 1295

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and Tehran) is disturbing. We hope Basra and Khorramshahr will be able obtain further information regarding troop and equipment movements on Iraqi side. Any info on similar movements Iranian side also desired. Tehran should continue urge restraint on Iran Govt at every suitable opportunity.

In conversation with Humphrey, Vice Pres Pan American on Oct 29, we were told that Pan American had agreed register LSMs under Iranian flag as result advice from National Iranian Oil Company (NIOC). According Humphrey, NIOC proceeding on premise that all Shatt problems were properly concern of Iranian Foreign Ministry which would undertake any necessary discussions with Iraqi authorities. Humphrey said his company wished avoid any contact with Iraqi officials. He professed to play down use of Khosroabad port aspects of problem as distinguished from flag and pilotage aspects.

Re Khorramshahr's 30 rptd Tehran 123, we are unable to advise until we know whether Iran intends enforce flag requirement for foreign shipping destined Iranian ports.

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